

Message Text

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TO SECSTATE WASHDC 0814

C O N F I D E N T I A L SECTION 1 OF 3 LISBON 2663

DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: GDS
TAGS: ECON, PFOR, PO
SUBJECT: ECONOMIC DEVELOPMENTS - NEW ECONOMIC TEAM

REF: A) LISBON 2420, B) LISBON 2474, C) LISBON 2557

SUMMARY: MARCH 18 RESHUFFLING OF SOARES GOVERNMENT INCLUDED SIGNIFICANT CHANGES IN THE GOP ECONOMIC TEAM. CHANGES, WHICH PROVIDE GREATER ECONOMIC AND MANAGERIAL EXPERTISE THAN GOP HAS HAD IN THE PAST, SHOULD IMPROVE THE EFFICIENCY OF THE BUREAUCRACY. POLITICAL INDEPENDENCE OF NEW CABINET MEMBERS HAS SHIFTED GOVERNMENT COMPOSITION TOWARD POLITICAL CENTER, A DEVELOPMENT WELCOMED BY DEMOCRATIC OPPOSITION. PRIVATE SECTOR SOMEWHAT MORE COMFORTABLE WITH NEW TEAM, BUT CONTINUES TO RESERVE JUDGMENT UNTIL NEW CABINET TAKES MAJOR DECISIONS. END SUMMARY.

1. NEW ECONOMIC TEAM: MAR 18 RESHUFFLING OF SOARES CABINET INCLUDED IMPORTANT CHANGES IN GOP ECONOMIC LINEUP. NEW FACES IN ECONOMIC CABINET AND SUB-CABINET POSTS ARE LISTED BELOW BY MINISTRY. BASIO BIO ON EACH REPORTED REF A.

(A) MINISTRY OF INDUSTRY:
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--MINISTER - ALFREDO NOBRE DA COSTA;
--SECRETARY FOR INDUSTRY AND TECHNOLOGY - FERNANDO SANTOS MARTINS;
--SECRETARY FOR ENERGY AND MINES - RICARDO BAIÃO HORTA.
(B) MINISTRY OF COMMERCE AND TOURISM:
--MINISTER - CARLOS MOTA PINTO;
(C) MINISTRY OF LABOR:

--MINISTER - ANTONIO MALDONADO GONELHA, (FORMERLY SECRETARY OF LABOR);

--SECRETARY FOR LABOR - CUSTODIO ALMEIDA SIMOES (FORMERLY SUB-SECRETARY OF LABOR);

(D) MINISTRY OF FINANCE:

--SECRETARY FOR FINANCE AND TREASURY - MARIA MANUELA MORGADO (FORMERLY SECRETARY FOR FINANCE ALONE) - NOT REPORTED IN REF A;

--SUB-SECRETARY FOR FINANCE - EURICO FERREIRA NUNES;

--SUB-SECRETARY FOR TREASURY - ANTONIO CONSIGLIERI PEDROSO (REPORTED IN REF A AS STATE SECRETARY FOR FINANCE AND TREASURY);

--SUB-SECRETARY FOR BUDGET - MORGADO CANDIDO;

(E) MINISTRY OF PLAN AND ECONOMIC COORDINATION:

--SECRETARY FOR ECONOMIC COORDINATION - CARLOS MELANCIA (PREVIOUSLY SECRETARY FOR HEAVY INDUSTRY, MINISTRY OF INDUSTRY) - REPORTED IN REF A AS SECRETARY FOR PLANNING;

(F) MINISTRY OF HOUSING, URBANIZATION AND CONSTRUCTION:

--SUB-SECRETARY FOR HOUSING, URBANIZATION AND CONSTRUCTION - ALMERINDO SANTOS MACHADO.

2. ECONOMIC THEMES PREDOMINATE: ECONOMIC THEMES DOMINATED REMARKS OF BOTH SOARES AND PRESIDENT EANES AT SWEARING-IN OF THE CABINET, WHICH, SOARES EMPHASIZED, WAS NOT "NEW" BUT MERELY "ADJUSTED" (REF B). SOARES REITERATED MOTIFS HE HAS STRESSED INCREASINGLY IN RECENT WEEKS: THE IMPORTANCE OF THE PRIVATE SECTOR; THE GOP'S COMMITMENT TO A MARKET ECONOMY; COMMUNIST RESPONSIBILITY FOR PORTUGAL'S ECONOMIC STRAITS AND CURRENT LABOR

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DIFFICULTIES; AND AN APPEAL FOR WORKER SUPPORT. PRESIDENT EANES LAUDED RECENT GOP ECONOMIC MEASURES AND UNDERScoreD THE NEED TO INCREASE PRODUCTIVITY AND DECREASE CONSUMPTION.

3. ASSESSMENT OF ECONOMIC CABINET CHANGES: SOARES NOTWITHSTANDING, THE RESTRUCTURING OF HIS ECONOMIC CABINET WAS MORE THAN A MINOR ADJUSTMENT. IT AMOUNTS TO A MAJOR TRANSFORMATION WHICH SHOULD ENHANCE THE GOP'S CAPACITY TO DEAL WITH THE ECONOMY.

A. STRUCTURAL IMPROVEMENTS: THE FILLING OF KEY POSITIONS AND THE REARRANGEMENT OF OTHERS SHOULD IMPROVE THE GOVERNMENT'S EFFICIENCY. THE APPOINTMENT OF NOBRE DA COSTA AND MOTA PINTO WILL PERMIT AGRICULTURE MINISTER BARRETO

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C O N F I D E N T I A L SECTION 2 OF 3 LISBON 2663

DEPT PASS TREASURY FOR SYVRUD

AND PLANNING MINISTER SOUSA GOMES, WHO HAVE SERVED IN DUAL CAPACITIES SINCE LAST WINTER, TO DEVOTE FULL TIME TO THEIR JOBS. THE CONSOLIDATION OF THE TREASURY AND FINANCE SECRETARIATS IS A LOGICAL STEP WHICH, GIVEN THE EXPERTISE OF THE NEW SUB-SECRETARIES, SHOULD WORK WELL. TRANSFER OF THE SECRETARIAT OF PUBLIC ADMINISTRATION TO THE PRIME MINISTER'S OFFICE SHOULD HELP MAKE THE STATE BUREAUCRACY MORE RESPONSIVE TO GOVERNMENT POLICY.

B. GREATER COMPETENCE: THE CABINET CHANGES SHOULD ALSO INCREASE THE GOVERNMENT'S ECONOMIC AND MANAGERIAL COMPETENCE. OF THE NEW MINISTERS, BOTH NOBRE DA COSTA AND MOTA PINTO ENJOY EXCELLENT REPUTATIONS; THE FIRST AS AN EXCELLENT POLICYMAKER AND THE SECOND AS AN ANALYTICAL, PRAGMATIC JURIST WHO EFFECTIVELY LED THE POPULAR DEMOCRATS IN THE CONSTITUENT ASSEMBLY. AT LABOR, GONELHA'S IMPRESSIVE ENERGY AND BOLDNESS WILL BE AN IMPROVEMENT OVER THE RAMBLING, OFTEN LETHARGIC, MARCELO CURTO. THE CAPABLE EX-SECRETARY FOR ENERGY AND MINES, ROCHA CABRAL, HAS BEEN SACRIFICED TO NOBRE DA COSTA'S DESIRE FOR HIS OWN TEAM IN INDUSTRY. NEVERTHELESS, BAIÃO HORTA, CABRAL'S REPLACEMENT, IS AGGRESSIVE,
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PRAGMATIC, AND TECHNICALLY COMPETENT. FINANCE SHOULD BENEFIT FROM THE INFUSION OF ITS THREE NEW UNDER-SECRETARIES' CONSIDERABLE EXPERTISE. THERE ARE STILL SOFT SPOTS. THE PLANNING AND COORDINATION MINISTRY

MUST NOW BE CONSIDERED THE GOVERNMENT'S WEAK LINK.
TAKEN AS A WHOLE, HOWEVER, SOARES' NEW ECONOMIC TEAM
IS SIGNIFICANTLY STRONGER THAN ITS PREDECESSOR.

C. INDEPENDENTS PREDOMINATE: IT IS SIGNIFICANT
THAT, EXCEPT IN LABOR, THE NEW ECONOMIC MINISTERS ARE
NOT SOCIALISTS. THIS DEVELOPMENT IS NO ACCIDENT. THE
NOMINATION OF POLITICAL INDEPENDENTS WILL STRENGTHEN THE
SOCIALIST CONTENTION THAT THE GOVERNMENT ECONOMIC PROGRAM
IS NONPARTISAN AND, THEREFORE, DESERVE BROAD NATIONAL
SUPPORT. THE INFUSION OF SO MANY INDEPENDENTS - ENCOURAGED
BY PRESIDENT EANES - HAS PRODUCED A DEFINITE SHIFT IN THE
GOVERNMENT'S COMPOSITION TOWARD THE POLITICAL CENTER.
THIS CHANGE HAS NOT BEEN LOST ON THE DEMOCRATIC OPPOSITION
PARTIES, WHICH VIEW THE SHIFT AS A POSSIBLE FIRST
STEP AWAY FROM THE P.S.'S GO-IT-ALONE POLICY. THEIR
REACTIONS TO THE NEW ECONOMIC TEAM HAVE BEEN RESERVED
BUT GENERALLY POSITIVE, AND PROSPECTS FOR SMOOTHER
SAILING IN THE ASSEMBLY FOR GOP ECONOMIC MEASURES HAVE
IMPROVED.

D. PRIVATE SECTOR REACTION: PRIVATE SECTOR
REACTION TO THE CABINET CHANGES HAS BEEN SIMILARLY
POSITIVE. BUSINESSMEN KNOW AND RESPECT INDIVIDUALS
LIKE NOBRE DA COSTA, BAIÃO HORTA AND PEDROSO IN A WAY
THEY COULD NOT, FOR EXAMPLE, EX-INDUSTRY MINISTER
WALTER ROSA. NONETHELESS, THEIR SKEPTICISM OF THE
SOARES GOVERNMENT IS DEEP-SEATED; THEY WILL JUDGE THE
NEW TEAM ON ITS PERFORMANCE.

4. MINISTER OF LABOR STATES POSITION: NEWLY APPOINTED
MINISTER OF LABOR MALDONADO GONELHA MADE FOLLOWING POINTS
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DURING BRIEF PRESS INTERVIEW MAR 31: "THE MINISTRY OF LABOR
CANNOT BE SYMPATHETIC ONLY TO THE INTERESTS OF THE
WORKERS. IT MUST ALSO DEFEND THE INTERESTS OF MANAGEMENT,
THAT MANY TIMES HAVE BEEN PREJUDICED AND IMPEDED.
HOSTILITY TO PRIVATE INITIATIVE WILL GET US NOWHERE.
(LISBON 2597)

- ONLY PRIVATE INVESTMENT IN LABOR INTENSIVE SECTORS
CAN RESOLVE THE PROBLEM OF PORTUGAL'S 500,000 UNEMPLOYED.
- THE MINISTRY OF LABOR WILL TAKE WHATEVER MEASURES
ARE NECESSARY TO GUARANTEE THAT THE TOURISM INDUSTRY
WILL NOT BE DISRUPTED.

5. AGRARIAN REFORM: ON MARCH 31 MINISTRY OF AGRICULTURE
RELEASED COMMUNIQUE STRONGLY CONDEMNING INEFFICIENCY OF
COMMUNIST-CONTROLLED COLLECTIVE FARMS IN SOUTHERN
PORTUGAL. AS RESULT OF SUCH INNOVATIONS AS FIXED 8-HOUR

DAY FOR RURAL WORKERS, COMMUNIQUE CHARGED THERE WOULD BE A LARGE DROP IN GRAIN PRODUCTION FOR 1977. PORTUGAL WILL THUS BE EVEN MORE DEPENDENT ON GRAIN IMPORTS. COMMUNIQUE NOTED THAT SMALL AND MEDIUM INDEPENDENT UNITS AND COOPERATIVE FARMS HAD PROVEN FAR MORE EFFICIENT THAN COLLECTIVES. AS OF MAR 31 GOP HAD NOT COMPLETED EXPULSION

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C O N F I D E N T I A L SECTION 3 OF 3 LISBON 2663

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OF COLLECTIVE WORKERS WHO HAD EARLIER IN WEEK OCCUPIED LAND RECENTLY RETURNED TO SMALL FARMERS (REF C).

6. EC APPLICATION: PORTUGAL PRESENTED ITS FORMAL APPLICATION FOR EC MEMBERSHIP IN BRUSSELS ON MARCH 28. NEGOTIATIONS ON PORTUGUESE ENTRY ARE EXPECTED TO BEGIN EARLY NEXT YEAR FOLLOWING STUDIES BY EC TECHNICIANS OF PORTUGUESE ECONOMY AND GLOBAL ECONOMIC RAMIFICATIONS OF PORTUGUESE ENTRY.

7. STATISTICS: BANK OF PORTUGAL HAS PROVIDED EMBASSY WITH FOLLOWING STATISTICS:
-- CONSUMER PRICES: CONSUMER FOOD PRICES IN JANUARY AND FEBRUARY WERE, RESPECTIVELY, 11 PERCENT AND 14 PERCENT OVER AVERAGE PRICES FOR 1976, ACCORDING TO A NEWLY INITIATED GOP CONSUMER PRICE INDEX SERIES. MARCH INDEX, WHICH SHOULD BE PUBLISHED MID-APRIL, WILL LIKELY BE SHARPLY UP IN WAKE OF POST-FEB 25 PRICE INCREASES.
-- EMPLOYMENT: MINISTRY OF LABOR ESTIMATES TOTAL UNEMPLOYED IN DECEMBER 1976 AT 503 THOUSAND (ABOUT 15 PERCENT OF WORK FORCE), AS OPPOSED TO 396 THOUSAND IN 1975 AND

179.5 THOUSAND IN 1974. OF THE 1976 UNEMPLOYED, 125.7

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THOUSAND WERE REFUGEES.

-- INDUSTRIAL PRODUCTION: MOST RECENT INDICES OF PORTUGUESE INDUSTRIAL OUTPUT, COVERING PERIOD JANUARY-NOVEMBER 1976, SHOW OVERALL INCREASE OF 3.7 PERCENT OVER SAME PERIOD OF 1975. DECLINE OF 10 PERCENT AND 11 PERCENT IN ELECTRICAL AND MINING OUTPUT PARTIALLY OFFSET IMPRESSIVE PERFORMANCE OF MANUFACTURING INDUSTRIES, WHICH REPORTEDLY INCREASED 5.3 PERCENT. CHEMICALS (UP 20.4 PERCENT) AND BASE METALLURGY (UP 20.6 PERCENT) LED MANUFACTURING ADVANCE. THE IMPORTANT TRANSPORT MATERIALS AND TEXTILE SECTORS (TOGETHER ACCOUNTING FOR ROUGHLY 10 PERCENT OF GDP IN 1975) ROSE, RESPECTIVELY, 9.3 AND 8.3 PERCENT.

8. AMERICAN BUSINESSMEN'S VIEWS: AMBASSADOR MET ON MAR 28 WITH 18 U.S. BUSINESS REPRESENTATIVES TO DISCUSS GENERAL ECONOMIC SITUATION. IN RESPONSE TO A QUERY ABOUT THE LABOR CLIMATE, FIRESTONE, WHICH HAD SERIOUS LABOR STRIFE IN 1975 AND 1976, REPORTED THAT ITS PRODUCTION AND PRODUCTIVITY SET COMPANY RECORDS IN JANUARY AND FEBRUARY 1977. MANAGER ATTRIBUTED THIS SPECTACULAR IMPROVEMENT TO CHANGED LABOR ATTITUDES, ATTRIBUTABLE IN PART TO THE FIRING OF SIX AGITATORS. BUSINESSMEN REPORTED THEY ARE HAVING NO DIFFICULTIES IN GETTING CREDIT FROM PORTUGUESE BANKING SYSTEM. (ONE FIRM NOTED LATER THAT HE HAS MORE CREDIT THAN HE NEEDS.) AMONG THEIR MAJOR CONCERNS WERE POSSIBLE FURTHER ESCUDO DEVALUATION AND LIMITATION ON FOREIGN PERSONNEL WORKING IN PORTUGAL.

9. EXCHANGE RATE: LISBON CHECK BUY RATE CLOSED APRIL 1 AT 38.606 ESCUDOS TO THE DOLLAR.
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